

MONTICELLO COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Propriety Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	23
Statement of Changes in Fiduciary Net Assets	K	24
Notes to Financial Statements		25-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		35
Notes to Required Supplementary Information - Budgetary Reporting		36
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	38
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	39-40
Statement of Changes in Assets and Liabilities - Agency Fund	4	41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5	42
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		43-44
Schedule of Findings		45-48

Monticello Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Lee Hein	President	2006
John Cook	Vice President	2008
Lisa Lubben	Board Member	2006
Jeff Monck	Board Member	2008
Jeff Hinrichs	Board Member	2007

Board of Education (After September 2006 Election)		
Lee Hein	President	2009
John Cook	Vice President	2008
Jim Tjaden	Board Member	2009
Jeff Monck	Board Member	2008
Jeff Hinrichs	Board Member	2007

School Officials		
Randy Achenbach	Superintendent	2007
Nancy Strang	District Secretary	2007
Connie Reyner	Comptroller	2007
Gruhn Law Firm	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Monticello Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Monticello Community School District, Monticello, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Monticello Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2008 on our consideration of Monticello Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Monticello Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Monticello Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,210,578 in fiscal year 2006 to \$8,361,448 in fiscal year 2007, while General Fund expenditures increased from \$7,666,918 in fiscal 2006 to \$7,971,644 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$1,648,464 in fiscal 2006 to \$2,043,374 in fiscal 2007, a 23.96% increase from prior year.
- Overall, the District net assets in the governmental activities increased by \$988,462 and the business-type activities increased by \$9,759 respectively.
- The October 2006 Certified Enrollment count resulted in an increase of 11.9 students. Hopefully, this trend will continue in the future to help ensure the financial stability of the District.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Monticello Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Monticello Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Monticello Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Monticello Community School District Annual Financial Report

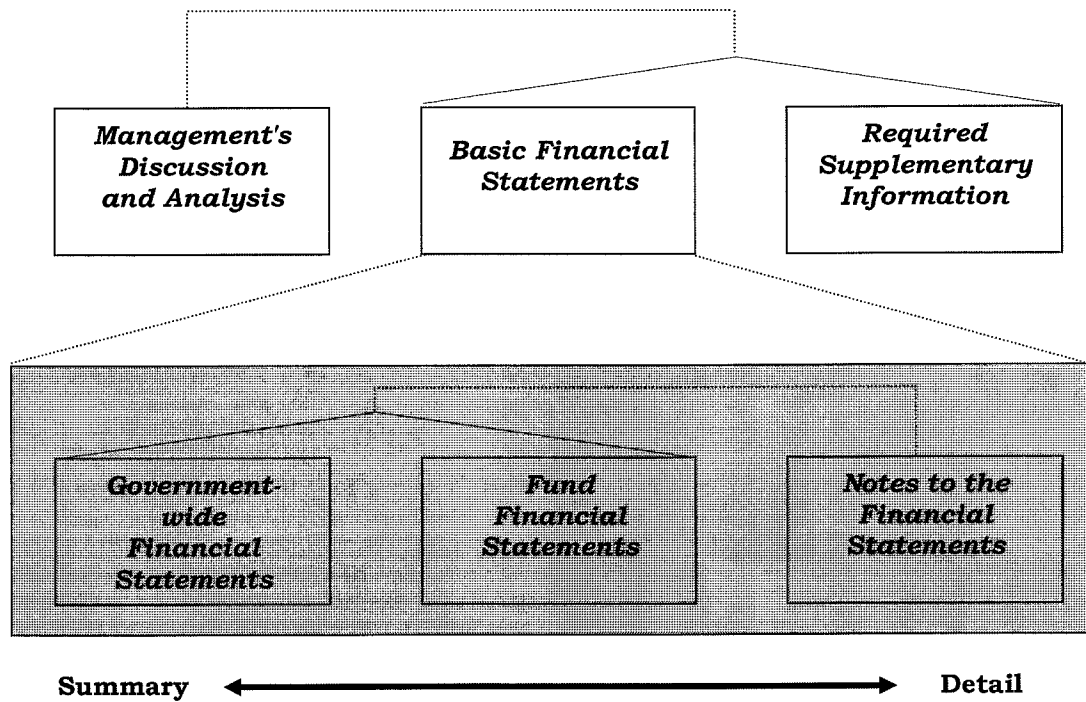


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has three Enterprise Funds, the School Nutrition Fund, the School Accounts Fund and the Preschool Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 7,580,362	12,157,455	92,721	82,735	7,673,083	12,240,190	-37.31%
Capital assets	8,079,928	8,263,541	99,423	85,394	8,179,351	8,348,935	-2.03%
Total assets	15,660,290	20,420,996	192,144	168,129	15,852,434	20,589,125	-23.01%
Long-term obligations	5,461,530	11,308,060	0	0	5,461,530	11,308,060	-51.70%
Other liabilities	3,841,956	3,744,594	18,646	4,390	3,860,602	3,748,984	2.98%
Total liabilities	9,303,486	15,052,654	18,646	4,390	9,322,132	15,057,044	-38.09%
Net assets:							
Invested in capital assets, net of related debt	2,639,928	3,061,764	99,423	85,394	2,739,351	3,147,158	-12.96%
Restricted	1,582,614	544,007	0	0	1,582,614	544,007	190.92%
Unrestricted	2,134,262	1,762,571	74,075	78,345	2,208,337	1,840,916	19.96%
Total net assets	\$ 6,356,804	5,368,342	173,498	163,739	6,530,302	5,532,081	18.04%

The District's combined net assets increased by \$998,221, or 18.04%, over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased by \$1,038,607, or 190.92% over the prior year. The increase was primarily the result of

a change in the way invested in capital assets net of related debt was calculated. Previously, the fund balances in the Capital Projects Fund and Debt Service Fund were included in the calculation in error.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased by \$367,421, or 19.96%, over the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 847,728	885,954	312,254	269,525	1,159,982	1,155,479	0.39%
Operating grants and contributions and restricted interest	1,101,758	1,096,063	161,237	148,767	1,262,995	1,244,830	1.46%
General revenues:							
Property tax	3,592,119	3,811,201	0	0	3,592,119	3,811,201	-5.75%
Local option sales and service tax	591,363	508,806	0	0	591,363	508,806	16.23%
Unrestricted state grants	3,690,074	3,584,716	0	0	3,690,074	3,584,716	2.94%
Other	431,587	318,067	5,903	3,898	437,490	321,965	35.88%
Total revenues	10,254,629	10,204,807	479,394	422,190	10,734,023	10,626,997	1.01%
Program expenses:							
Governmental activities:							
Instructional	5,529,740	5,341,253	0	0	5,529,740	5,341,253	3.53%
Support services	2,673,689	2,662,833	9,618	0	2,683,307	2,662,833	0.77%
Non-instructional programs	0	0	460,017	418,917	460,017	418,917	9.81%
Other expenses	1,049,459	1,096,194	0	0	1,049,459	1,096,194	-4.26%
Total expenses	9,252,888	9,100,280	469,635	418,917	9,722,523	9,519,197	2.14%
Change in net assets before other financing uses	1,001,741	1,104,527	9,759	3,273	1,011,500	1,107,800	-8.69%
Other financing sources							
Transfer out	(13,279)	0	0	0	(13,279)	0	-100.00%
Change in net assets	988,462	1,104,527	9,759	3,273	998,221	1,107,800	-9.89%
Net assets beginning of year	5,368,342	4,263,815	163,739	160,466	5,532,081	4,424,281	25.04%
Net assets end of year	\$ 6,356,804	5,368,342	173,498	163,739	6,530,302	5,532,081	18.04%

Property tax and unrestricted state grants account for 71.01% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.77% of the revenue from business type activities.

The District's total revenues were approximately \$10.73 million of which \$10.25 million was for governmental activities and approximately \$0.48 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.01% increase in revenues and a 2.14% increase in expenses. The increase in revenues was due to increased local option sales and service tax and unrestricted state grant revenues the District received during fiscal 2007. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$10,254,629 and expenses were \$9,252,888.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 5,529,740	5,341,253	3.53%	3,976,375	3,715,041	7.03%
Support services	2,673,689	2,662,833	0.41%	2,603,242	2,610,535	-0.28%
Other expenses	1,049,459	1,096,194	-4.26%	723,785	792,687	-8.69%
Totals	\$ 9,252,888	9,100,280	1.68%	7,303,402	7,118,263	2.60%

- The cost financed by users of the District's programs was \$847,728.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,101,758.
- The net cost of governmental activities was financed with \$3,592,119 in property tax, \$591,363 in local option sales and services tax, \$3,690,074 in unrestricted state grants and \$255,884 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$479,394 and expenses were \$469,635. The District's business-type activities include the School Nutrition Fund and School Accounts Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Monticello Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$3,625,805, below last year's ending fund balances of \$8,359,602. The main reason for the significant drop in fund balances is due to the District paying \$5,360,000 in debt related to the crossover refunding debt issue.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in the tax levy, as well as, state grant revenues during the year, resulted in an increase in revenues. The increase in revenues was enough to offset the District's increase in expenditures ensuring the increase of the District's financial position.

- The increase in the tax levy for debt service allowed the Debt Service Fund to pay for a larger portion of the general obligation bond payments from local taxes rather than transferring monies from the Capital Projects Fund. This allowed the Capital Projects fund balance to increase from \$706,374 to \$860,776 during the year.
- The Special Revenue, Management Levy fund balance decreased in fiscal year 2007. Revenues decreased by \$213,903 as compared to fiscal 2006. Fund expenditures decreased by \$24,869 as compared to fiscal 2006. The decrease in revenues being more than the decrease in expenses ensured the decline in Management fund balance.
- The Special Revenue, Physical Plant and Equipment Levy fund balance increased \$148,602 to an ending balance of \$224,923. This increase is a result of increased revenues and decreased expenditures as compared to fiscal 2006.

Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$157,743 at June 30, 2006 to \$157,950 at June 30, 2007, representing an increase of less than 1%.

The School Accounts Fund net assets increased from \$5,996 to \$7,081, representing an increase of 18.10%.

During fiscal 2007, the District started the Preschool Fund. Fund revenues were \$30,973 while fund expenditures were \$22,506. This resulted in the fund having \$8,467 as its ending fund balance after its first year of operation.

BUDGETARY HIGHLIGHTS

The District's revenues were \$266,622 more than budgeted revenues, a variance of 2.55%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Initially, total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional function due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget a second time.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$8,179,351, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$397,283.

The original cost of the District's capital assets was \$15,749,170. Governmental funds account for \$15,516,946 with the remainder of \$232,224 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$408,051 at June 30, 2006 compared to \$444,880 at June 30, 2007.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 149,802	149,802	0	0	149,802	149,802	0.00%
Construction in progress	148,489	139,542	0	0	148,489	139,542	6.41%
Buildings	6,617,383	6,760,508	0	0	6,617,383	6,760,508	-2.12%
Land improvements	818,797	891,032	0	0	818,797	891,032	-8.11%
Machinery and equipment	345,457	322,657	99,423	85,394	444,880	408,051	9.03%
Total	\$ 8,079,928	8,263,541	99,423	85,394	8,179,351	8,348,935	-2.03%

Long-Term Debt

At June 30, 2007, the District had \$5,461,530 in general obligation and early retirement outstanding. This represents a decrease of 51.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$5,440,000 at June 30, 2007. This significant decrease is due to the crossover refunding bond indebtedness crossing over on May 1, 2007.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$21,530, which is an decrease of 50.0% from the prior year.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
General obligation bonds	\$ 5,440,000	11,265,000	-51.7%
Early retirement	21,530	43,060	-50.0%
Total	\$ 5,461,530	11,308,060	-51.7%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.

- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten –year period, which began in fiscal year 2005.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Connie Reyner, District Comptroller, Monticello Community School District, 711 South Maple Street, Monticello, Iowa, 52310.

BASIC FINANCIAL STATEMENTS

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,934,207	86,061	4,020,268
Receivables:			
Property tax:			
Delinquent	42,201	0	42,201
Succeeding year	3,063,823	0	3,063,823
Income surtax	144,283	0	144,283
Accounts	31,093	417	31,510
Due from other governments	327,864	0	327,864
Inventories	36,891	6,243	43,134
Capital assets, net of accumulated depreciation (Note 4)	8,079,928	99,423	8,179,351
TOTAL ASSETS	15,660,290	192,144	15,852,434
LIABILITIES			
Accounts payable	176,337	7,012	183,349
Interest payable	31,682	0	31,682
Salaries and benefits payable	564,087	4,929	569,016
Deferred revenue:			
Succeeding year property tax	3,063,823	0	3,063,823
Unearned revenues	0	6,705	6,705
Other	6,027	0	6,027
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	530,000	0	530,000
Early retirement	21,530	0	21,530
Portion due after one year:			
General obligation bonds	4,910,000	0	4,910,000
TOTAL LIABILITIES	9,303,486	18,646	9,322,132
NET ASSETS			
Invested in capital assets, net of related debt	2,639,928	99,423	2,739,351
Restricted for:			
Beginning teacher mentoring	1,460	0	1,460
Market factor	7,092		
Early intervention	9,339	0	9,339
Talented and gifted	3,822	0	3,822
Management levy	344,348	0	344,348
Physical plant & equipment levy	224,923	0	224,923
Capital projects	860,776	0	860,776
Debt service	82,253	0	82,253
Other special revenue purposes	48,601	0	48,601
Unrestricted	2,134,262	74,075	2,215,429
TOTAL NET ASSETS	\$ 6,356,804	173,498	6,530,302

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 3,177,754	384,687	705,519	(2,087,548)	0	(2,087,548)
Special instruction	1,176,672	153,806	0	(1,022,866)	0	(1,022,866)
Other instruction	1,175,314	282,249	27,104	(865,961)	0	(865,961)
	5,529,740	820,742	732,623	(3,976,375)	0	(3,976,375)
Support services:						
Student services	361,431	0	0	(361,431)	0	(361,431)
Instructional staff services	172,388	0	0	(172,388)	0	(172,388)
Administration services	937,773	0	0	(937,773)	0	(937,773)
Operation and maintenance of plant services	741,471	0	0	(741,471)	0	(741,471)
Transportation services	460,626	26,986	43,461	(390,179)	0	(390,179)
	2,673,689	26,986	43,461	(2,603,242)	0	(2,603,242)
Other expenditures:						
Facilities acquisitions	19,092	0	0	(19,092)	0	(19,092)
Long-term debt interest	446,070	0	0	(446,070)	0	(446,070)
AEA flowthrough	325,674	0	325,674	0	0	0
Depreciation(unallocated)*	258,623	0	0	(258,623)	0	(258,623)
	1,049,459	0	325,674	(723,785)	0	(723,785)
Total governmental activities	9,252,888	847,728	1,101,758	(7,303,402)	0	(7,303,402)
Business-Type activities:						
Support services:						
Administration services	7,000	0	0	0	(7,000)	(7,000)
Operation and maintenance of plant services	2,618	0	0	0	(2,618)	(2,618)
Non-instructional programs:						
Nutrition services	437,333	280,018	161,237	0	3,922	3,922
Total nutrition services	446,951	280,018	161,237	0	(5,696)	(5,696)
Non-instructional programs:						
Preschool	22,506	30,973	0	0	8,467	8,467
School accounts	178	1,263	0	0	1,085	1,085
Total business-type activities	469,635	312,254	161,237	0	3,856	3,856
Total	\$ 9,722,523	1,159,982	1,262,995	(7,303,402)	3,856	(7,299,546)
General Revenues & Transfers:						
Property tax levied for:						
General purposes				\$ 2,995,931	0	2,995,931
Debt services				317,680	0	317,680
Capital outlay				278,508	0	278,508
Local option sales and service tax				591,363	0	591,363
Unrestricted state grants				3,690,074	0	3,690,074
Unrestricted investment earnings				255,084	5,903	261,787
Gain on sale of equipment				5,106	0	5,106
Other				170,597	0	170,597
Transfers				(13,279)	0	(13,279)
Total general revenues				8,291,864	5,903	8,297,767
Change in net assets				988,462	9,759	998,221
Net assets beginning of year				5,368,342	163,739	5,532,081
Net assets end of year				\$ 6,356,804	173,498	6,530,302

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 2,524,890	680,929	78,444	649,944	3,934,207
Receivables:					
Property tax:					
Delinquent	34,087	0	3,781	4,333	42,201
Succeeding year	2,604,464	0	156,693	302,666	3,063,823
Income surtax	144,283	0	0	0	144,283
Accounts	31,093	0	0	0	31,093
Due from other governments	147,989	179,847	28	0	327,864
Inventories	36,891	0	0	0	36,891
TOTAL ASSETS	\$ 5,523,697	860,776	238,946	956,943	7,580,362
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 161,607	0	0	14,730	176,337
Salaries and benefits payable	563,942	0	0	145	564,087
Deferred revenue:					
Succeeding year property tax	2,604,464	0	156,693	302,666	3,063,823
Income surtax	144,283	0	0	0	144,283
Other	6,027	0	0	0	6,027
Total liabilities	3,480,323	0	156,693	317,541	3,954,557
Fund balances:					
Reserved for:					
Debt service	0	0	82,253	0	82,253
Beginning teacher mentoring	1,460	0	0	0	1,460
Market factor	7,092	0	0	0	7,092
Early intervention	9,339	0	0	0	9,339
Talented and gifted	3,822	0	0	0	3,822
Unreserved:					
General	2,021,661	0	0	0	2,021,661
Management levy	0	0	0	365,878	365,878
Physical plant and equipment levy	0	0	0	224,923	224,923
Capital projects	0	860,776	0	0	860,776
Other special revenue	0	0	0	48,601	48,601
Total fund balances	2,043,374	860,776	82,253	639,402	3,625,805
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,523,697	860,776	238,946	956,943	7,580,362

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$ 3,625,805
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	8,079,928
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(31,682)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	144,283
Long-term liabilities, including bonds payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,461,530)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 6,356,804</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,907,203	591,363	317,680	358,659	4,174,905
Tuition	481,671	0	0	0	481,671
Other	210,008	15,129	194,812	401,410	821,359
Intermediate sources	5,000	0	0	0	5,000
State sources	4,491,906	0	210	235	4,492,351
Federal sources	265,660	0	0	0	265,660
Total revenues	8,361,448	606,492	512,702	760,304	10,240,946
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	3,145,176	0	0	72,001	3,217,177
Special instruction	1,176,672	0	0	0	1,176,672
Other instruction	840,787	0	0	331,839	1,172,626
	5,162,635	0	0	403,840	5,566,475
Support services:					
Student services	361,174	0	0	0	361,174
Instructional staff services	124,757	0	0	50,000	174,757
Administration services	941,489	0	0	1,354	942,843
Operation and maintenance of plant services	671,883	0	0	69,718	741,601
Transportation services	384,032	0	0	76,877	460,909
	2,483,335	0	0	197,949	2,681,284
Other expenditures:					
Facilities acquisitions	0	0	0	71,302	71,302
Long-term debt:					
Principal	0	0	465,000	0	465,000
Interest and fiscal charges	0	0	496,835	0	496,835
AEA flowthrough	325,674	0	0	0	325,674
	325,674	0	961,835	71,302	1,358,811
Total expenditures	7,971,644	0	961,835	673,091	9,606,570
Excess(deficiency) of revenues over(under) expenditures	389,804	606,492	(449,133)	87,213	634,376
Other financing sources(uses):					
Transfer in	0	0	452,090	0	452,090
Transfer out	0	(452,090)	0	(13,279)	(465,369)
Payment from escrow	0	0	(5,360,000)	0	(5,360,000)
Sale of materials	5,106	0	0	0	5,106
Total other financing sources(uses)	5,106	(452,090)	(4,907,910)	(13,279)	(5,368,173)
Net change in fund balances	394,910	154,402	(5,357,043)	73,934	(4,733,797)
Fund balance beginning of year	1,648,464	706,374	5,439,296	565,468	8,359,602
Fund balance end of year	\$ 2,043,374	860,776	82,253	639,402	3,625,805

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds(page 18) \$ (4,733,797)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense for the current year, are as follows:

Capital expenditures	\$ 196,872	
Depreciation expense	(380,485)	(183,613)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repaid	5,825,000
--------	-----------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

50,765

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

8,577

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	21,530

Changes in net assets of governmental activities(page 15)	\$ 988,462

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	School Nutrition	Pre- school	School Accounts	Total
Assets				
Cash and pooled investments	\$ 69,193	9,787	7,081	86,061
Accounts receivable	417	0	0	417
Inventories	6,243	0	0	6,243
Capital assets, net of accumulated depreciation	99,423	0	0	99,423
Total Assets	175,276	9,787	7,081	192,144
Liabilities				
Accounts payable	6,004	1,008	0	7,012
Salaries and benefits payable	4,617	312	0	4,929
Unearned revenues	6,705	0	0	6,705
Total Liabilities	17,326	1,320	0	18,646
Net Assets				
Invested in capital assets	99,423	0	0	99,423
Unrestricted	58,527	8,467	7,081	74,075
Total Net Assets	\$ 157,950	8,467	7,081	173,498

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	School Nutrition	Pre- school	School Accounts	Total
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 279,003	0	0	279,003
Donations	2,500	0	0	2,500
Miscellaneous	1,015	30,973	1,263	33,251
TOTAL OPERATING REVENUES	282,518	30,973	1,263	314,754
OPERATING EXPENSES:				
Support services:				
Administration services	7,000	0	0	7,000
Operation and maintenance of plant services	2,618	0	0	2,618
Non-instructional programs:				
Salaries	155,681	12,909	0	168,590
Benefits	41,182	1,756	0	42,938
Supplies	223,672	7,841	178	231,691
Depreciation	16,798	0	0	16,798
TOTAL OPERATING EXPENSES	446,951	22,506	178	469,635
OPERATING INCOME (LOSS)	(164,433)	8,467	1,085	(154,881)
NON-OPERATING REVENUES:				
State sources	5,312	0	0	5,312
Federal sources	153,425	0	0	153,425
Interest income	5,903	0	0	5,903
TOTAL NON-OPERATING REVENUES	164,640	0	0	164,640
Changes in net assets	207	8,467	1,085	9,759
Net assets beginning of year	157,743	0	5,996	163,739
Net assets end of year	\$ 157,950	8,467	7,081	173,498

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2007

	School Nutrition	Pre- school	School Accounts	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 281,562	0	0	281,562
Cash received from miscellaneous operating activities	3,515	30,973	1,263	35,751
Cash payments to employees for services	(192,246)	(14,353)	0	(206,599)
Cash payments to suppliers for goods or services	(210,161)	(6,833)	(178)	(217,172)
Net cash provided by(used in) operating activities	(117,330)	9,787	1,085	(106,458)
Cash flows from non-capital financing activities:				
State grants received	5,312	0	0	5,312
Federal grants received	134,006	0	0	134,006
Net cash provided by non-capital financing activities	139,318	0	0	139,318
Cash flows from capital and related financing activities:				
Purchase of capital assets	(30,827)	0	0	(30,827)
Cash flows from investing activities:				
Interest on investments	5,903	0	0	5,903
Net increase(decrease) in cash and cash equivalents	(2,936)	9,787	1,085	7,936
Cash and cash equivalents at beginning of year	72,129	0	5,996	78,125
Cash and cash equivalents at end of year	\$ 69,193	9,787	7,081	86,061
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (164,433)	8,467	1,085	(154,881)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	19,419	0	0	19,419
Depreciation	16,798	0	0	16,798
Increase in inventories	(2,294)	0	0	(2,294)
Decrease in accounts receivable	244	0	0	244
Increase in accounts payable	6,004	1,008	0	7,012
Increase in salaries and benefits payable	4,617	312	0	4,929
Increase in unearned revenue	2,315	0	0	2,315
Net cash provided by(used in) operating activities	\$ (117,330)	9,787	1,085	(106,458)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 69,193	9,787	7,081	86,061

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$19,419.

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
ASSETS		
Cash and pooled investments	<u>\$ 14,501</u>	<u> 3,676</u>
LIABILITIES		
Due to other groups	<u> 0</u>	<u> 3,676</u>
NET ASSETS		
Reserved for scholarships	<u><u>\$ 14,501</u></u>	<u><u> 0</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 3,572
Contributions	1,000
Total additions	<u>4,572</u>
Deductions:	
Non-instructional programs:	
Scholarships awarded	<u>3,350</u>
Total deductions	<u>3,350</u>
Change in net assets before other financing sources	1,222
Other financing sources:	
Transfer in	<u>13,279</u>
Change in net assets	14,501
Net assets beginning of year	<u>0</u>
Net assets end of year	<u>\$ 14,501</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Monticello Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Monticello, Iowa, and the predominate agricultural territory in Linn, Jones, Delaware and Dubuque Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Monticello Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Monticello Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Linn, Jones, Delaware and Dubuque County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary funds:

The District's proprietary funds are the School Nutrition Fund, Preschool Fund and School Accounts Fund. The School Nutrition Fund is used to account for the food service

operations of the District. The Preschool Fund is used to account for the child care and preschool services provided by the District. The School Accounts Fund is used to account for miscellaneous proprietary accounts the District has.

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are

incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute,

the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and benefits payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements in the non-instructional function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances;

certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	\$ 576

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 452,090
Debt Service	Special Revenue, Physical Plant and Equipment Levy	13,279
Total		\$ 465,369

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 201,397	30,827	0	232,224
Less accumulated depreciation	116,003	16,798	0	132,801
Business-type activities capital assets, net	\$ 85,394	14,029	0	99,423

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 149,802	0	0	149,802
Construction in progress	139,542	8,947	0	148,489
Total capital assets not being depreciated	289,344	8,947	0	298,291
Capital assets being depreciated:				
Buildings	9,461,660	35,825	0	9,497,485
Land improvements	2,145,825	7,438	0	2,153,263
Machinery and equipment	3,790,681	144,662	367,436	3,567,907
Total capital assets being depreciated	15,398,166	187,925	367,436	15,218,655
Less accumulated depreciation for:				
Buildings	2,701,152	178,950	0	2,880,102
Land improvements	1,254,793	79,673	0	1,334,466
Machinery and equipment	3,468,024	121,862	367,436	3,222,450
Total accumulated depreciation	7,423,969	380,485	367,436	7,437,018
Total capital assets being depreciated, net	7,974,197	(192,560)	0	7,781,637
Governmental activities capital assets, net	\$ 8,263,541	(183,613)	0	8,079,928

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 28,340
Other	3,733
Support services:	
Student services	257
Instructional staff services	7,631
Administration services	1,867
Operation and maintenance of plant services	2,320
Transportation	77,714
	121,862
Unallocated depreciation	258,623
Total governmental activities depreciation expense	\$ 380,485
Business-type activities:	
Food services	\$ 16,798

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 11,265,000	0	5,825,000	5,440,000	530,000
Early retirement	43,060	0	21,530	21,530	21,530
Total	\$ 11,308,060	0	5,846,530	5,461,530	551,530

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is the amount of unused sick leave time the employees per diem contract rate for teaching only. The maximum benefits for full-time staff is \$15,000. Early retirement benefits paid during the year ended June 30, 2007, totaled \$21,530.

General Obligation Bonds Payable

Details of the District's June 30, 2007 General Obligation bond indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue November 1, 2005		
		Principal	Interest	Total
2008	3.100	% \$ 530,000	191,173	721,173
2009	3.200	545,000	174,743	719,743
2010	3.300	565,000	157,303	722,303
2011	3.450	580,000	138,658	718,658
2012	3.550	600,000	118,648	718,648
2013	3.600	620,000	97,348	717,348
2014	3.700	640,000	75,028	715,028
2015	3.750	665,000	51,348	716,348
2016	3.800	695,000	26,410	721,410
Total		\$ 5,440,000	1,030,659	6,470,659

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$258,105, \$286,332, and \$259,577, respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and

protection in the following categories: health and long-term disability. District contributions to ISEBA for the year ended June 30, 2007 were \$759,947.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$325,674 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Construction Commitment

The District and the District's athletic foundation are working together to construct an athletic complex on District grounds. As of June 30, 2007, the District had incurred costs of \$148,489 in construction costs for the athletic complex. As of June 30, 2007, the amount of incurred costs for the athletic foundation for construction of the athletic complex is not known. Once construction is completed the foundation is donating the athletic complex to the District and the total cost of the project will be added to the District's fixed asset listing.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, disbursements in the non-instructional function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

MONTICELLO COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Original	Final	Final to Actual Variance
Receipts:						
Local sources	\$ 5,477,935	320,657	5,798,592	5,468,890	5,468,890	329,702
Intermediate sources	5,000	0	5,000	10,000	10,000	(5,000)
State sources	4,492,351	5,312	4,497,663	4,464,828	4,464,828	32,835
Federal sources	265,660	153,425	419,085	510,000	510,000	(90,915)
Total receipts	10,240,946	479,394	10,720,340	10,453,718	10,453,718	266,622
Disbursements:						
Instruction	5,566,475	0	5,566,475	6,208,000	6,208,000	641,525
Support services	2,681,284	9,618	2,690,902	3,246,000	3,246,000	555,098
Non-instructional programs	0	460,017	460,017	426,000	458,202	(1,815)
Other expenditures	1,358,811	0	1,358,811	1,382,332	6,536,403	5,177,592
Total disbursements	9,606,570	469,635	10,076,205	11,262,332	16,448,605	6,372,400
Excess(deficiency) of receipts over(under) disbursements	634,376	9,759	644,135	(808,614)	(5,994,887)	6,639,022
Other financing sources, net	(5,368,173)	0	(5,368,173)	7,000	7,000	(5,375,173)
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(4,733,797)	9,759	(4,724,038)	(801,614)	(5,987,887)	1,263,849
Balance beginning of year	8,359,602	163,739	8,523,341	2,684,563	2,684,563	5,838,778
Balance end of year	\$ 3,625,805	173,498	3,799,303	1,882,949	(3,303,324)	7,102,627

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District adopted one budget amendment increasing total expenditures by \$5,186,273.

During the year ended June 30, 2007, expenditures in the non-instructional function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

MONTICELLO COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Special Revenue			
	Physical	Manage-	Student	Total
	Plant and Equipment Levy	ment Levy	Activity	
ASSETS				
Cash and pooled investments	\$ 227,375	364,886	57,683	649,944
Receivables:				
Property tax:				
Current year delinquent	3,341	992	0	4,333
Succeeding year	277,666	25,000	0	302,666
TOTAL ASSETS	\$ 508,382	390,878	57,683	956,943
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 5,793	0	8,937	14,730
Salaries and benefits payable	0	0	145	145
Deferred revenue:				
Succeeding year property tax	277,666	25,000	0	302,666
Total liabilities	283,459	25,000	9,082	317,541
Unreserved fund balances	224,923	365,878	48,601	639,402
TOTAL LIABILITIES AND FUND BALANCES	\$ 508,382	390,878	57,683	956,943

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue				
	Physical Plant and Equipment Levy	Manage- ment Levy	Student Activity	Expendable Trust	Total
REVENUES:					
Local sources:					
Local tax	\$ 278,508	80,151	0	0	358,659
Other	68,533	18,669	314,208	0	401,410
State sources	184	51	0	0	235
TOTAL REVENUES	347,225	98,871	314,208	0	760,304
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	0	72,001	0	0	72,001
Other instruction	0	0	331,839	0	331,839
Support services:					
Instructional staff services	50,000	0	0	0	50,000
Administration services	0	1,354	0	0	1,354
Operation and maintenance of plant services	444	69,274	0	0	69,718
Transportation services	76,877	0	0	0	76,877
Other expenditures:					
Facility acquisitions	71,302	0	0	0	71,302
TOTAL EXPENDITURES	198,623	142,629	331,839	0	673,091
Excess(deficiency) of revenues over (under) expenditures	148,602	(43,758)	(17,631)	0	87,213
Other financing uses:					
Transfers out	0	0	0	(13,279)	(13,279)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	148,602	(43,758)	(17,631)	(13,279)	73,934
Fund balance beginning of year	76,321	409,636	66,232	13,279	565,468
Fund balance end of year	\$ 224,923	365,878	48,601	0	639,402

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 3,124	0	47	3,077
Elementary-all	10,365	12,279	11,747	10,897
Elementary-PE	242	0	242	0
Music	4	0	4	0
Student council	10	0	10	0
Vocal-Carpenter	2,192	1,437	1,456	2,173
JH instrumental	1,366	1,584	2,442	508
Student organization	7,011	8,736	8,573	7,174
Yearbook-JH	282	0	282	0
HS vocal	6,160	2,252	2,726	5,686
HS instrumental	446	1,999	1,665	780
HS student organization	10,287	11,010	11,250	10,047
HS co-ed athletics	(18,991)	95,541	26,258	50,292
Cross country	0	16	1,950	(1,934)
Boys basketball-JH	0	0	7,976	(7,976)
Football-JH	0	0	14,424	(14,424)
Baseball-JH	(1,015)	0	5,875	(6,890)
Boys track-JH	0	0	3,947	(3,947)
Soccer-JH	(253)	0	4,968	(5,221)
Boys golf-JH	0	0	2,272	(2,272)
Wrestling-JH	0	0	6,761	(6,761)
Girls basketball-JH	0	0	20,837	(20,837)
Volleyball-JH	0	0	4,879	(4,879)
Softball-JH	(1,400)	2,174	6,453	(5,679)
Softball concessions	460	22	1,687	(1,205)
Girls track	0	0	3,923	(3,923)
Girls golf	0	0	1,142	(1,142)
Paw prints	340	0	340	0
Model UN	106	0	106	0
Cheerleader	7,648	13,996	22,323	(679)
Dance team	1,608	6,123	5,220	2,511
Speech and drama	7,467	11,880	12,578	6,769
HS music	3,049	5,738	3,207	5,580
Boys basketball-HS	(33)	0	0	(33)
Football-HS	1,234	898	1,867	265
Baseball-HS	757	26	423	360
Girls basketball-HS	82	6,916	7,438	(440)
Volleyball-HS	1,868	4,079	3,197	2,750
Girls golf-HS	(127)	126	0	(1)
Student council-HS	1,047	4,119	3,799	1,367
Yearbook-HS	(11,670)	14,620	12,477	(9,527)
Job olympics	11	0	11	0

MONTICELLO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Montisports.org	510	469	938	41
Sixth grade	2,413	1,500	1,405	2,508
7th grade	2,325	13,811	13,607	2,529
8th grade	2,755	7,474	8,369	1,860
Freshman	2,736	135	(19)	2,890
Sophomore	1,924	134	(812)	2,870
Junior	1,685	9,009	8,333	2,361
Senior	2,757	167	579	2,345
FFA	9,322	33,256	29,509	13,069
FHI	353	0	353	0
Science club	332	0	332	0
BPA	1,022	18,873	18,482	1,413
M-club	409	0	409	0
Coffee club	2,473	918	952	2,439
Camera club	1,046	0	1,046	0
International club	493	22,891	21,574	1,810
Total	\$ 66,232	314,208	331,839	48,601

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 4,869	21,372	21,274	3,676
Accounts receivable	1,481	0	1,481	0
TOTAL ASSETS	\$ 6,350	21,372	22,755	3,676
LIABILITIES				
Accounts payable	\$ 92	0	92	0
Due to other groups	6,258	21,372	23,954	3,676
TOTAL LIABILITIES	\$ 6,350	21,372	24,046	3,676

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	4,174,905	4,310,031	4,372,964	4,134,270
Tuition		481,671	586,557	448,168	421,871
Other		821,359	653,247	515,437	453,113
Intermediate sources		5,000	0	9,564	11,500
State sources		4,492,351	4,257,420	3,916,593	3,871,736
Federal sources		265,660	384,005	258,632	466,285
Total	\$	10,240,946	10,191,260	9,521,358	9,358,775
Expenditures:					
Instruction:					
Regular instruction	\$	3,217,177	3,209,124	2,928,810	2,987,594
Special instruction		1,176,672	1,204,034	1,090,021	1,019,440
Other instruction		1,172,626	895,569	888,058	755,989
Support services:					
Student services		361,174	309,830	322,402	452,813
Instructional staff services		174,757	332,202	240,294	250,711
Administration services		942,843	754,436	797,328	897,437
Operation and maintenance of plant services		741,601	830,135	777,994	590,786
Transportation services		460,909	425,707	488,085	319,138
Other expenditures:					
Facilities acquisitions		71,302	228,514	405,016	512,119
Long Term Debt:					
Principal		465,000	499,470	410,000	390,000
Interest		496,835	449,128	345,874	367,645
AEA flow-through		325,674	303,507	294,542	299,347
Total	\$	9,606,570	9,441,656	8,988,424	8,843,019

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Monticello Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Monticello Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 22, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Monticello Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Monticello Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Monticello Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Monticello Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Monticello Community School District's financial statements that is more than inconsequential will not be prevented or detected by Monticello Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Monticello Community School District's internal control.

Members American Institute & Iowa Society of Certified Public Accountants

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Monticello Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Monticello Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Monticello Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Monticello Community School District and other parties to whom Monticello Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Monticello Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 22, 2008

MONTICELLO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives.

Conclusion - Response accepted.

I-B-07 Hourly Wages Payroll Procedures - We noted during our audit that the District did not maintain documentation on hours worked by sponsors or coaches for wage and hour purposes, as required by the Department of Labor.

Recommendation - The District should require documentation of hours worked for sponsors and coaches who are not exempt. The District should monitor for minimum wage as well as overtime.

Response - The District will review and make the necessary corrections to these procedures.

Conclusion - Response accepted.

I-C-07 Agency Fund - During our audit we noted the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the District serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or a parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District places certain assets into the custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund".

It appears the District is improperly accounting for activity funds as an agency account. We noted gate receipts from District sporting events, as well as, receipts from scholastic book fairs being placed into an Agency Fund account named Revolving. Since the moneys from these activities are in fact the District's money, the money being placed in the Agency Fund is inappropriate. Gate receipts should be placed in the Activity Fund and scholastic book fair receipts could either be placed in the Activity Fund or General Fund.

Recommendation - The purpose of the Agency Fund is to account for financial transactions the District makes as a custodial agent according to Chapter 9 of the LEA Administrative Manual. The District should close the accounts in the Agency Fund where District moneys are being placed and put the funds in the appropriate individual Activity Fund accounts from which these moneys would be appropriately receipted and expended from. The District should refrain from reporting District assets in the Agency Fund.

Response - The District will review procedures and will account for these funds properly in the future.

Conclusion - Response accepted.

MONTICELLO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007 exceeded the amount budgeted in the non-instructional function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget when necessary in the future.

Conclusion - Response accepted.

II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

However, we noted during our audit that reimbursements to employees for meal expenses had no detailed receipts attached for supporting documentation. According to District policy, employees that seek reimbursement of expenses must attach a detailed receipt to the claim form otherwise the expense becomes the employees' expense.

Recommendation - The District should review procedures in place to ensure that receipts for all reimbursable expenses are attached for supporting documentation.

Response - The District will request that employees that seek reimbursement will turn in itemized receipts for documentation purposes.

Conclusion - Response accepted.

II-D-07 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Nick Sauser, Bus Driver Owns Nick's Service Center	Repairs	\$366
Kathy Harms, Teacher Spouse owns Subway	Food	\$457
Daniel Sauser, Teacher Father-in-law owns Welter Storage	Supplies	\$6,353
Janece Lasley, Teacher Brother owns Communications Solutions	Supplies	\$5,033
Connie Reyner, Business Manager Brother-in-law owns Darrell's	Supplies	\$1,830
Callie Ehrisman, Teacher Mother owns Brier Rose	Supplies	\$300
Bobby Tuetken, Coach Owns Blue Chip/Blue Inn	Purchase service	\$329

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Nick Sauser and Bobby Tuetken do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the mother, brother, spouses, father-in-law, and brother-in-law of the District's employees do not appear to represent a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-07 Financial Condition - We noted during our audit that the District had negative account balances in the Student Activity Fund totaling \$97,770.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - Sponsors are monitoring the balances in their accounts regularly and are exploring ways to eliminate the deficits.

Conclusion - Response accepted.

- II-K-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District will request the front and back of all checks from the banks the District does business with.

Conclusion - Response accepted.